

Message Text

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INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 CIEP-01 SP-02 STR-04 TRSE-00

LAB-04 SIL-01 SAM-01 OMB-01 SS-15 NSC-05 H-02 L-03

PA-01 PRS-01 XMB-02 OPIC-03 AGR-05 AF-08 ARA-06 EA-07

NEA-10 /118 W

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FM US MISSION EC BRUSSELS

TO SECSTATE WASHDC 1063

INFO ALL EC CAPITALS 2051

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E. O. 11652: N/A

TAGS: EEC EFIN

SUBJECT: APRIL 27 EC MONETARY COMMITTEE MEETING -- CONCERN OVER FRG
MONETARY POLICY AND ADOPTION OF AN OPINION ON LDC DEBT MATTERS

REFS: (A) EC BRUSSELS 4232, (B) EC BRUSSELS 4178, (C) EC A-170

1. BEGIN SUMMARY: EC COMMISSSION OFFICIALS TELL US THAT
THE APRIL 27 EC MONETARY COMMITTEE MEETING DISCUSSED MEMBER
STATES' MONETARY POLICY, ESPECIALLY FRG INTEREST RATES,
AND MEMBER STATE BALANCE OF PAYMENT FORECASTS. THE
COMMITTEE WILL CONTINUE DISCUSSIONS TO IMPROVE POLICY
COORDINATION, ESPECIALLY REGARDING MONEY SUPPLY TARGETS
AND MEASURES TO CONTROL THE EURODOLLAR MARKET. WITH AN
EYE TOWARD UNCTAD, THE COMMITTEE ADOPTED A RECOMMENDATION
TO FINANCE MINISTERS TO PURSUE LDC DEBT RESCHEDULING ON A
CASE-BY-VASE BASIS. REF A. REPORTS DISCUSSIONS ON THE
SIDELINES OF THE MEETING REGARDING AN ADDITIONAL CREDIT
FOR ITALY. END SUMMARY.

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2. EC COMMISSION OFFICIALS TELL US THAT THE EC

MONETARY COMMITTEE AGREED TO HOLD CONSULTATIONS ON MEMBER STATE MONETARY POLICY COORDINATION, PARTICULARLY FRG INTEREST RATE POLICIES AT ITS MAY 25 MEETING. BRITISH, BELGIAN AND DANISH OFFICIALS REGISTERED CONCERN OVER POSSIBLE INCREASES IN FRG AND US INTEREST RATES. THEY FEARED THAT SUCH INCREASE COULD TRIGGER FURTHER SPECULATION IN EXCHANGE MARKETTS. THEY ADDED THAT COUNTRIES WITH RELATIVE WEAK CURRENCIES NEEDED TO MAINTAIN A SUBSTANTIAL INTREST RATE DIFFERENTIAL BETWEEN THEIR RATES AND THOSE OF THE FRG AND US. FOR THIS REASON, THEY ASKED WHETHER THE FRG STILL INTENDS TO MAINTAIN ITS POLICY OF AN 8 PERCENT EXPANSION OF CENTRAL BANK MONEY THIS YEAR. CONSIDERING INCREASED GDP GROWTH EXPECTATIONS IN THE FRG, THEY SUGGESTED THAT SUCH A TARGET WOULD REQUIRE THE FRG TO INCREASE ITS INTEREST RATES. FRG OFFICIALS (POEHL AND WEBER) AGREED TO TAKE UP THIS SUBJECT AT THE NEXT MEETING AT WHICH TIME THE FRG WILL PESENT A PAPER ON ITS MONETARY POLICIES. DUTCH TREASURY OFFICIAL OORT INDICATED THAT THE CURRENT RELATIVELY LOW FRG INTEREST RATES LIMITED THE FLEXIBILITY OF DUTCH MONETARY POLICY. THUS, CONTRARY TO HIS COLLEAGUES, OORT FAVORED SOME INCREASE IN CURRENT FRG INTEREST RATES.

3. BALANCE OF PAYMENT (BOP) ANALYSES: IN A GENERAL DISCUSSION OF 1976 BOP FORECASTS, THE UK PROJECTED A DEFICIT ON CURRENT ACCOUNT OF ABOUT 300 MILLION POUNDS THIS YEAR. ITALY FORECAST SOME DETERIORATION IN THEIR CURRENT ACCOUNT DEFICIT IN COMPARISON TO 1975 WHILE THE FRG PREDICTED SOME IMPROVEMENT IN ITS SURPLUS COMPARED TO 1975. FRANCE MADE NO PROJECTIONS, BUT ITS REPRESENTATIVE SAID THAT THE GOF TRADE ACCOUNT SHOWED A DEFICIT FOR THE FIRST QUARTER OF TWO BILLION FRENCH FRANCS.

4. CAUSES OF EXCHANGE RATE SPECULATION: THE COMMITTEE GENERALLY AGREED THAT EXCESS LIQUIDITY CREATED BY LARGE TREASURY DEFICITS, PARTICULARLY IN THE WEAK CURRENCY COUNTRIES, HAD BEEN THE MAJOR SOURCE OF RECENT SPECULATIVE CAPITAL MOVEMENTS. THE BELGIAN REPRESENTATIVE NOTED THAT LIMITED OFFICIAL USE

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OF THE 50 BILLION BELGIAN FRANCS OF EXCHANGE RESERVES WHICH THE GOB HAD LOST, IT HAD NOW REPURCHASED ABOUT 16 BILLION BF. BOTH THE DANISH AND BELGIAN REPRESENTATIVES REAFFIRMED THEIR INTENTIONS TO TAKE NECESSARY POLICY MEASURES TO STAY WITHIN THE SNAKE MARGINS. OORT PROPOSED THAT THE COMMITTEE TAKE UP POSSIBLE GUIDELINES FOR MEMBER STATES WHOSE CURRENCIES ARE FLOATING. THE COMMITTEE DECIDED, HOWEVER, TO POSTPONE THIS PROPOSAL

UNTIL T LEAST ITS JUNE 22 MEETING. CHAIRMAN POEHL
SUGGESTED THAT IT WOULD NOT BE APPROPRIATE FOR THE
COMMITTEE TO DISCUSS EXXHANGE RATE POLICIES AT THIS
TIME. MOSCA OF THE COMMISSION OBJECTED, HOWEVER, AND
PLANS TO MAKE A STATEMENT ON POSSIBLE MEASURES TO
COORDINATE EXCHANGE RATE POLICIES AT THE NEXT
MEETING.

5. ECONOMIC POLICY COORDINATION: IN LINE WITH THE
RECENT FINANCE MINISTERS' DISCUSSION (SEE REF B), THE
COMMITTEE AGREED THAT IT WOULD NOT BE APPROPRIATE TO
CONSIDER EC SANCTIONS AGAINST MEMBER STATES WHICH FAILED
TO CARY OUT ECONOMIC POLICY GUIDELINES. INSTEAD, THE
COMMITTEE WOULD ENDEAVOR TO IMPROVE COOPERATION AND
HARMONIZATION OF ECONOMIC POLICIES. THE COMMITTEE'S
OBJECTIVE WILL BE TO IMPROVE ITS OWN POLICY COORDINATION.
IN THIS REGARD, THE COMMITTEE AGREED TO TAKE UP AT ITS
JUNE MEETING POSSIBLE MEASURES TO IMPROVE CONTROL OF THE
EURO DOLLAR MARKET. (SEE REF C) OORT NOTED THAT
THE DUTCH ECONOMY WOULD HAVE CONTINUED HIGH UNEMPLOY-
MENT LEVELS OVER THE MEDIUM-TERM AND SUGGESTED THAT
THE COMMITTEE SHOULD COORDINATE MEASURES TO STIMULATE
PRIVATE INVESTMENT. CHAIRMAN POEHL, HOWEVER, SUGGESTED
THAT THE EC ECONOMIC POLICY COORDINATING COMMITTEE SHOULD
TAKE UP THIS PROPOSAL.

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6. OPINION ON RESCHEDULING OF LDC DEBT: THE COMMITTEE ADOPTED AN OPINION OPPOSING ANY MORATORIUM ON REPAYMENT OF LDC DEBT OR ANY ADOPTION OF GENERAL PRINCIPLES REGARDING THE HANDLING OF LDC DEBT MATTERS. INSTEAD, THE COMMITTEE PROPOSED THAT LDC DEBTS SHOULD BE HANDLED ON A CASE-BY-CASE BASIS THROUGH BILATERAL DISCUSSION WITH CREDITOR COUNTRIES. OORT SUGGESTED THAT THE IBRD AND IMF MIGHT BE AUTHORIZED TO CALL SPECIAL CREDITOR MEETINGS TO CONSIDER DEBT PROBLEMS OF LDCS AS THEY ARISE. HOWEVER, THE FRG, FRENCH AND BELGIAN REPRESENTATIVES OPPOSED GRANTING THESE INSTITUTIONS INCREASED AUTHORITY IN DEBT MATTERS. THEY FELT THE CREDITOR COUNTRIES SHOULD CONTINUE TO HANDLE DEBT RESCHEDULING ON AN AD HOC BASIS. AS A RESULT, OORT'S SUGGESTION WAS NOT INCLUDED IN THE COMMITTEE'S OPINION.

7. COMMISSION OFFICIALS NOTE THAT PART OF THE DUTCH GOVERNMENT DOES NOT AGREE WITH THE COMMITTEE'S OPINION. IT WILL BE UP TO THE MEMBER STATES TO
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RESOLVE THESE DIFFERENCES DURING PREPARATORY DISCUSSIONS FOR UNCTAD IV. THE COMMITTEE'S OPINION WILL BE SENT TO MEMBER STATE FINANCE MINISTERS FOR THEM TO CONSIDER ON AN INDIVIDUAL BASIS. HINTON

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